

## A SNAPSHOT OF THE

# PAYMENT ERROR RATE MEASUREMENT

### Overview

A federal audit required by law, Payment Error Rate Measurement (PERM) is conducted by the Centers for Medicare and Medicaid Services (CMS). The audit determines the accuracy of a sample of Medicaid and State Children's Health Insurance Program (SCHIP) claims submitted by providers and capitation payments to care management organizations (CMO). The audit will produce error rates for both Medicaid and SCHIP (PeachCare for Kids in Georgia). The federal audit will examine whether fee-for-service claims were priced/paid/denied correctly; whether the service was medically necessary; and whether the person was correctly determined eligible for the benefit coverage when the service was delivered.

The ultimate purpose and use of PERM data is to enable CMS and the U.S. Department of Health & Human Services (HHS) to report an HHS payment error rate to Congress, as required by the Improper Payments Information Act of 2002. Additionally, the payments determined to have been made in error will have to be repaid.

### Program Description

The PERM program consists of two components.

- A quarterly review of randomly sampled Medicaid and SCHIP claims from all the fee-for-service and managed care claims will be extracted. The random sample will consist of paid and denied claims from each program. CMS will draw samples from claims adjudicated during the twelve months October 2006 through September 2007
- A monthly review of randomly sampled Medicaid and SCHIP eligibility case decisions. Cases will be sampled from the nine months January 2007 through September 2007

### Payment Error Rate Measurement Method

The improper payment estimate for each program will be based on the overpayments, underpayments, or payments made on behalf of ineligible members identified during PERM reviews. Improper payments for fee-for-service are determined by conducting claims processing validation, an eligibility review and a medical necessity review. Improper payments for managed care are determined by conducting a processing validation and an eligibility review. A medical necessity review will not be necessary for managed care payments.

### Is Georgia the only state selected for this type of audit?

All 50 states and the District of Columbia will take part in this federal audit. Georgia has been selected to participate in the second audit cycle, which will cover claims paid or denied during Federal Fiscal Year (FFY) 2007 (October 1, 2006 – September 30, 2007). Other states that will participate in the FFY07 PERM audit include: Alabama, California, Colorado, Kentucky, Maryland, Massachusetts, Nebraska, New Hampshire, New Jersey, North Carolina, Rhode Island, South Carolina, Tennessee, Utah, Vermont and West Virginia.

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## ○ **Why was the Payment Error Rate Measurement project initiated?**

PERM is required by the federal Improper Payments Information Act of 2002. More information regarding the PERM program can be found at [www.cms-perm.org](http://www.cms-perm.org) and <http://www.cms.hhs.gov/MedicaidPERM/>.

## ○ **Will CMS directly contact health care providers?**

CMS has contracted with Livanta to contact providers for documentation supporting claims selected in PERM samples. (According to Livanta, "When calling providers we introduce ourselves as the PERM Database and Documentation Contractor.")

## ○ **Must Providers Supply the Requested Documentation?**

Yes. Medicaid and SCHIP providers must maintain claim documentation, and provide the documentation requested by Livanta. It is imperative for claim documentation to be provided, no matter what the amount of the claim. If the claim documentation is not provided, the claim will be counted as an error. Part I Policy and Procedures Manual, Section 105 (S) provides further detail.